



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

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James R. Schauman  
Heather A. Thomas

## **HEART ACADEMY**

**Financial Statements  
June 30, 2007**

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## INDEPENDENT AUDITOR'S REPORT

August 31, 2007

To the Board of Directors  
HEART Academy

We have audited the accompanying financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2007, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of HEART Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the HEART Academy as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
HEART Academy  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2007, on our consideration of HEART Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# **HEART ACADEMY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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### **Introduction**

This section of the annual financial report presents management's discussion and analysis of HEART Academy's financial results for the fiscal year ended June 30, 2007. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

### **Using This Report**

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

### **Academy Wide Financial Statements**

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in the change in net assets, which can either, increase or decrease on an annual basis.

### **Fund Financial Statements**

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Agency and Trust Accounts**

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

**Condensed Financial Statements**  
**Analysis of Overall Financial Position and Results of Operations**

The table below provides a summary of the Academy's net assets as of June 30, 2007 and 2006.

Assets	2007	2006
Current and other assets	\$ 539,330	\$ 559,565
Capital assets -net of accumulated depreciation	51,926	148,670
Total assets	591,256	708,235
Liabilities		
Current liabilities	645,547	227,156
Long-term liabilities	-	358,333
Total liabilities	645,547	585,489
Net assets		
Invested in capital assets-net of related debt	(309,182)	(242,996)
Unrestricted	254,891	365,742
Total Net Assets	\$ (54,291)	\$ 122,746

The Academy's net assets were \$(54,291) at June 30, 2007. Capital assets, net of related debt \$(309,182), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The debt on the capital assets will be paid from the general fund revenue as the debt comes due. The remaining amount of net assets, \$254,891, is unrestricted and represents the accumulation of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Analysis of Overall Financial Position and Results of Operations (cont.)**

The Academy's results of operations for the years ended June 30, 2007 and 2006 are reported below.

Revenue	2007	2006
Program revenue		
Grants and contributions	\$ 190,957	\$ 243,488
Charges for services	2,189	4,713
General revenue		
State foundation allowance	1,673,977	1,737,824
Other	8,875	5,842
Total revenue	<u>1,875,998</u>	<u>1,991,867</u>
Function/Program expenses		
Instruction	958,564	929,881
Support services	963,709	972,941
Food service	15,131	26,560
Interest on long-term debt	18,887	22,310
Depreciation (unallocated)	96,744	96,744
Total expenses	<u>2,053,035</u>	<u>2,048,436</u>
Increase (decrease) in Net Assets	<u>\$ (177,037)</u>	<u>\$ (56,569)</u>

Total Revenue decreased from 2007 by \$115,869 as a result of the decrease in enrollment, decreased amount of grants and contributions. While there were increased expenses for purchased instructional services (related to increases in salary and benefit cost) and there was a loss in the lunch program (although less than the previous year), total expense increased by only \$4,599. The decreased revenue and increased expenses were not able to be offset resulting in an overall decrease of \$177,037 in Net Assets from 2006.

**Budget Highlights**

HEART Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. As a matter of practice the HEART Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2007, the Academy amended the budget on March 8, 2007 and June 19, 2007.

	Original	Final	Variance	Actual	Variance
Total Revenue	\$ 1,978,884	\$ 1,873,798	-5.31%	\$ 1,861,821	-0.64%
Total Expenditures	1,963,312	1,977,797	0.74%	1,971,718	-0.31%
Excess Revenue/Expenditures	15,572	(103,999)	-767.86%	(109,897)	5.67%



**HEART ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Budget Highlights (cont.)**

Changes to the original General Fund budget were as follows:

- When establishing the 2006/2007 revenue budget only estimates could be used, as there were a number of State and Federal budget factors that had not yet been determined. These factors included the uncertainty of per pupil funding, reductions or possible elimination of specific categoricals and grants. State funding was lower due to decreased enrollment (unrestricted and vocational) and at-risk count from the previous school year. Federal funding for the SLD (School & Library Division) grant was paid directly to the vendor and not to the Academy which accounted for the less than anticipated federal revenue. Grant funds were received but applied in a different format.
- Final budgeted "Instruction Basic Program" expenditures increased by \$56,284 as a result of higher purchased services costs for instructional staff salaries. Conversely the "Instruction Career & Technical" expenditures decreased by \$56,729 as a result of lower purchased services costs for instructional staff salaries and benefits.

**Final vs. Actual Budget**

- Management believes that the final budget to actual results variances were not significant.

**Academy's Funds**

**General Fund**

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2007, the fund decreased by \$109,897. The reason for the decrease was basically a decrease in student enrollment, while the Academy attempted to maintain programs.

**Food Service Fund**

The Academy planned on continuing to have the lunch program serviced by the same vendor as the previous year. Unfortunately, the vendor notified the Academy in late September that they would no longer be able to provide service as a result of other local contracts not being renewed. After completing the extensive process required to contract with a new vendor, the lunch program started at the end of November for those students who met federal requirements for free or reduced lunch and others who did not bring lunch with them. While the per meal charge increased from the vendor, the overall presentation and taste of the food improved. Through the focused efforts to increase the number of meals and a la carte purchases, the program loss was \$954 which was a significant improvement from the previous year's loss (\$6,501).

**HEART ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Debt Service Fund**

The Academy's debt service fund is used to pay the principal and interest on an existing loan from Comerica Bank. This loan was secured in a previous school year and was used to pay for building improvements to meet state building code requirements.

<u>Long-Term Debt</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Renovation Loan - Comerica	\$ 361,108	\$ 391,666
Total	<u>\$ 361,108</u>	<u>\$ 391,666</u>
<u>Debt Reduction</u>	<u>June 30, 2006</u>	<u>June 30, 2006</u>
Renovation Loan - Comerica	\$ 30,558	\$ 33,333
Total	<u>\$ 30,558</u>	<u>\$ 33,333</u>

**Capital Assets**

As of June 30, 2007 and 2006, the Academy has \$51,926 in capital assets including leasehold improvements, and furniture and equipment, less depreciation.

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 463,031	\$ 463,031
Equipment and furniture	57,697	57,697
Total Capital Assets	520,728	520,728
Less accumulated depreciation	(468,802)	(372,058)
Net Capital assets	<u>\$ 51,926</u>	<u>\$ 148,670</u>

Leasehold improvements have been depreciated over the life of this lease resulting in a higher than average depreciation expense and lower net capital assets.

**Conditions Affecting Next Year's Budget**

The State of Michigan budget crisis will have a direct impact on funding for educational services. While not all details of 07-08 budget have been decided it is anticipated that funding for the majority of categorical programs will be decreased. While expenditures will continue to increase, the decrease in funding calls for creative fundraising and grant initiatives to be put in place. The Academy is also challenged to put both programs and incentives in place to assist in student retention and prevent the cost associated with the type of turnover that has been seen during the last two years.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Requests for Information**

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

## BASIC FINANCIAL STATEMENTS

HEART Academy  
Academy Wide  
Statement of Net Assets  
June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 187,810
Receivables	325,083
Prepaid expenses	26,437
Capital assets less accumulated depreciation	51,926
Total Assets	<u>591,256</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	26,876
Accrued liabilities	9,113
Deferred revenue	7,233
Due to management company	241,217
Renovation Loan	361,108
Total Liabilities	<u>645,547</u>
<b>NET ASSETS</b>	
Invested in capital assets net of related debt	(309,182)
Unrestricted	254,891
Total Net Assets	<u>\$ (54,291)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Academy Wide  
Statement of Activities  
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 958,564	\$ -	\$ 168,886	\$ (789,678)
Support services	963,709	-	10,083	(953,626)
Food service	15,131	2,189	11,988	(954)
Interest on long-term debt	18,887	-	-	(18,887)
Depreciation (unallocated)	96,744	-	-	(96,744)
Totals	<u>\$ 2,053,035</u>	<u>\$ 2,189</u>	<u>\$ 190,957</u>	<u>(1,859,889)</u>
General revenues:				
State aid - unrestricted				1,673,977
Other				8,875
Total General Revenues				<u>1,682,852</u>
Change in Net Assets				(177,037)
Net Assets - Beginning of Year				122,746
Net Assets - End of Year				<u>\$ (54,291)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Governmental Funds  
Balance Sheet  
June 30, 2007

	General Fund	Debt Service	Food Service	Totals (Memorandum Only)
<u>Assets</u>				
Cash	\$ 187,810	\$ -	\$ -	\$ 187,810
Due from other governmental units	324,984	-	99	325,083
Due from other funds	10,887	-	-	10,887
Prepaid expenditures	26,437	-	-	26,437
Total Assets	<u>\$ 550,118</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ 550,217</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 26,876	\$ -	\$ -	\$ 26,876
Accrued expenditures	9,113	-	-	9,113
Due to other funds	-	-	10,887	10,887
Deferred revenue	7,233	-	-	7,233
Due to management company	241,217	-	-	241,217
Total Liabilities	<u>284,439</u>	<u>-</u>	<u>10,887</u>	<u>295,326</u>
<u>Fund Balance</u>				
Unreserved and undesignated	265,679	-	(10,788)	254,891
Total Fund Balance	<u>265,679</u>	<u>-</u>	<u>(10,788)</u>	<u>254,891</u>
Total Liabilities and Fund Balance	<u>\$ 550,118</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ 550,217</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Reconciliation of Balance Sheet of Governmental Funds To Net Assets  
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 254,891
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

The cost of the capital assets is	520,728
Accumulated depreciation is	(468,802)

Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

Renovation Loan	(361,108)
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Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ (54,291)</u>
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The accompanying notes are an integral part of these financial statements.



HEART Academy  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2007

	General	Debt Service	Food Service	Totals (Memorandum Only)
Revenue				
Local	\$ 8,875	\$ -	\$ 2,189	\$ 11,064
State	1,765,377	-	1,059	1,766,436
Federal	87,569	-	10,929	98,498
Total revenue	<u>1,861,821</u>	<u>-</u>	<u>14,177</u>	<u>1,875,998</u>
Expenditures				
Instruction				
Basic programs	713,913	-	-	713,913
Special education	69,216	-	-	69,216
Compensatory	57,227	-	-	57,227
Career and technical	118,208	-	-	118,208
Support Services				
Social work	51,670	-	-	51,670
Improvement of instruction	11,520	-	-	11,520
Education media services	523	-	-	523
Academic student assessment	2,966	-	-	2,966
General administration	302,318	-	-	302,318
School administration	179,666	-	-	179,666
Other school administration	638	-	-	638
Fiscal services	7,500	-	-	7,500
Operation and maintenance	386,654	-	-	386,654
Security	755	-	-	755
Central	500	-	-	500
Support services technology	18,462	-	-	18,462
Pupil accounting	537	-	-	537
Debt service	-	49,445	-	49,445
Food service	-	-	15,131	15,131
Total expenditures	<u>1,922,273</u>	<u>49,445</u>	<u>15,131</u>	<u>1,986,849</u>
Excess (Deficit) of Revenues over Expenditures	(60,452)	(49,445)	(954)	(110,851)
Other Financing Sources (Uses)				
Sources	-	49,445	-	49,445
Uses	(49,445)	-	-	(49,445)
Total Other Financing Sources (Uses)	<u>(49,445)</u>	<u>49,445</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	(109,897)	-	(954)	(110,851)
Fund Balance, Beginning	375,576	-	(9,834)	365,742
Fund Balance, Ending	<u>\$ 265,679</u>	<u>\$ -</u>	<u>\$ (10,788)</u>	<u>\$ 254,891</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2007

Net Change in Fund Balances - Governmental Funds	\$ (110,851)
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Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are capitalized  
and depreciated over their estimated useful lives.

Depreciation expense	(96,744)
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Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities	30,558
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Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (177,037)</u>
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The accompanying notes are an integral part of these financial statements.

HEART Academy  
Statement of Fiduciary Net Assets  
June 30, 2007

Assets	
Cash, student and parent organizations	<u>\$ 13,788</u>
Total Assets	<u><u>\$ 13,788</u></u>
Liabilities	
Due to student and parent organizations	<u>\$ 13,788</u>
Total Liabilities	<u><u>\$ 13,788</u></u>

The accompanying notes are an integral part of these financial statements.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

HEART Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2007, was \$50,022.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year there was a deficit in that fund. The General Fund has ample fund balance to cover this deficit.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible within the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold Improvements	5 years
Furniture and equipment	5-20 years

Leasehold improvements are depreciated over the life of the original lease.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of the amount due at year end to the Academy's oversight agency for oversight fees.

Due to Management Company

Due to Management Company consist of amounts on contracted employees and administrative fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

Inter-fund Activity

Inter-fund activity is reported as transfers and are eliminated upon consolidation.



HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2007. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$187,810 and the bank balance was \$338,957. Agency fund cash was \$13,788. Of the bank balance, \$100,000 was covered by federal depository insurance and \$238,957 was uninsured and un-collateralized. The Academy has not adopted an investment policy and does not hold any investments.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets subject to depreciation				
Leasehold improvements	\$ 463,031	\$ -	\$ -	\$ 463,031
Equipment and furniture	57,697	-	-	57,697
Total Capital Assets	<u>520,728</u>	<u>-</u>	<u>-</u>	<u>520,728</u>
Accumulated depreciation				
Leasehold improvements	358,849	92,606	-	451,455
Equipment and furniture	13,209	4,138	-	17,347
Total Accumulated Depreciation	<u>372,058</u>	<u>96,744</u>	<u>-</u>	<u>468,802</u>
Total Net Capital Assets	<u>\$ 148,670</u>	<u>\$ (96,744)</u>	<u>\$ -</u>	<u>\$ 51,926</u>

Depreciation was not allocated by function as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a bank loan with an original issue amount of \$500,000, bearing an interest rate of 5.37%. Monthly payments are in the amount of \$2,778 of principal and an additional amount for interest as calculated by the bank. The loan is a general fund obligation and will be paid from general fund revenue transferred to the debt service fund. The note has been amortized over 15 years with a maturity date of March 31, 2008. The Academy is allowed to transfer up to twenty percent of state aid each year to the debt service fund to service the debt. For the year ended June 30, 2007, the transfer from the general fund to the debt service fund did not exceed twenty percent.

A summary of long-term debt transactions follows:

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
Renovation loan	\$ 391,666	\$ -	\$ 30,558	\$ 361,108	\$ 361,108
	<u>\$ 391,666</u>	<u>\$ -</u>	<u>\$ 30,558</u>	<u>\$ 361,108</u>	<u>\$ 361,108</u>

Total interest paid for the year on debt totaled \$18,887.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above long-term debt are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 361,108	\$ 20,646	\$ 381,754
	<u>\$ 361,108</u>	<u>\$ 20,646</u>	<u>\$ 381,754</u>

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Management Contract

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$1,105,541. The amount due the management company at June 30, 2007 was \$241,217.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue, but not less than \$245,000. The amount expensed for management fees for the year ended June 30, 2007 was \$245,000.

NOTE 8--Lease Commitments

The Academy leases facilities with an unrelated party under an operating lease for the period August 2003 through June 30, 2007. The amount expensed for lease payments totaled \$335,070. The lease provides for an increase each July 1 by the same percentage as the State unrestricted foundation grant allowance amount per pupil increases as calculated by the Michigan Department of Education. In addition, if utility usage increases by more than 5% of the projected budget amount, the Academy is to reimburse the lessor for 30% of the increased amount.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments (continued)

The Academy entered into a lease agreement with an unrelated party in August of 2007 for the period July 2, 2007 through June 30, 2012. Rent will be \$31,000 per month for the year ending June 30, 2008 and will increase each July 1 by the same percentage as the state unrestricted per pupil foundation allowance. If the utilities increase by 5% or more from and after the first year of the lease, the lessor reserves the right to increase the monthly lease payment to reflect the increase in cost. Estimated payments for the years ending June 30, 2008 through June 30, 2012 are \$372,000 per year. This estimate will change each year as the foundation allowance changes.

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10--Inter-Fund Activity

The makeup of inter-fund activity is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 49,445	Debt service	\$ 49,445
Total	<u>\$ 49,445</u>	Total	<u>\$ 49,445</u>

The amount transferred from the general fund to the debt service was to cover principal and interest payments.

Due From		Due To	
General Fund	\$ 10,887	Food service	\$ 10,887
Total	<u>\$ 10,887</u>	Total	<u>\$ 10,887</u>

The amount due to the general fund from the food service fund is due to the general fund subsidizing the food service fund.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

HEART Academy  
Budgetary Comparison  
For the Year Ended June 30, 2007

	General Fund				Food Service			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenue								
Local	\$ 8,000	\$ 7,604	\$ 8,875	\$ 1,271	\$ 14,447	\$ 4,700	\$ 2,189	\$ (2,511)
State	1,866,534	1,781,243	1,765,377	(15,866)	-	-	1,059	1,059
Federal	104,350	84,951	87,569	2,618	11,855	12,250	10,929	(1,321)
Total Revenues	1,978,884	1,873,798	1,861,821	(11,977)	26,302	16,950	14,177	(2,773)
Expenditures								
Instruction								
Basic programs	659,885	716,169	713,913	(2,256)	-	-	-	-
Special education	60,500	62,035	69,216	7,181	-	-	-	-
Compensatory	62,092	61,460	57,227	(4,233)	-	-	-	-
Career and technical	174,976	118,247	118,208	(39)	-	-	-	-
Support Services								
Social work	52,184	51,670	51,670	-	-	-	-	-
Improvement of instruction	12,019	11,370	11,520	150	-	-	-	-
Education media services	946	523	523	-	-	-	-	-
Academic student assessment	10,000	4,000	2,966	(1,034)	-	-	-	-
General administration	303,843	302,046	302,318	272	-	-	-	-
School administration	169,771	180,390	179,666	(724)	-	-	-	-
Other school administration	2,000	1,200	638	(562)	-	-	-	-
Fiscal services	7,500	7,500	7,500	-	-	-	-	-
Operation and maintenance	380,046	387,795	386,654	(1,141)	-	-	-	-
Security	500	755	755	-	-	-	-	-
Central	1,350	500	500	-	-	-	-	-
Support services technology	8,500	17,500	18,462	962	-	-	-	-
Pupil accounting	800	537	537	-	-	-	-	-
Food service	-	-	-	-	26,302	23,219	15,131	(8,088)
Outgoing transfers	56,400	54,100	49,445	(4,655)	-	-	-	-
Total Expenditures	1,963,312	1,977,797	1,971,718	(6,079)	26,302	23,219	15,131	(8,088)
Excess (Deficiency) of Revenues Over Expenditures	15,572	(103,999)	(109,897)	(5,898)	-	(6,269)	(954)	5,315
Fund Balance - Beginning of Year	375,576	375,576	375,576	-	(9,834)	(9,834)	(9,834)	-
Fund Balance - End of Year	\$ 391,148	\$ 271,577	\$ 265,679	\$ (5,898)	\$ (9,834)	\$ (16,103)	\$ (10,788)	\$ 5,315

## ADDITIONAL SUPPLEMENTAL INFORMATION



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

August 31, 2007

To the Board of Directors  
HEART Academy

We have audited the financial statements of the governmental activities of HEART Academy as of and for the year ended June 30, 2007, which comprise HEART Academy's basic financial statements, and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered HEART Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HEART Academy's internal control over financial. Accordingly, we do not express an opinion on the effectiveness of HEART Academy's internal control over financial reporting.



To the Board of Directors  
HEART Academy  
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects HEART Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of HEART Academy's financial statements that is more than inconsequential will not be prevented or detected by HEART Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by HEART Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance**

As part of obtaining reasonable assurance about whether HEART Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Studner, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants